

TEACHERS' RETIREMENT BOARD
BUDGETS AND AUDITS COMMITTEE

SUBJECT: 1999/2000 Audit Work Plan

ITEM NUMBER: 7

ATTACHMENT(S): 3

ACTION: X

DATE OF MEETING: October 14, 1999

INFORMATION: _____

PRESENTER(S): Mr. Lee

In accordance with the Standards for the Professional Practice of Internal Auditing and the responsibilities of the Internal Audits Office as stated in the Internal Audit Charter, we are submitting, for your approval, the attached combined annual audit work plan for the 1999/2000 fiscal year and the report of audits completed in the 1998-99 fiscal year. The plan presents internal audits, school district audits, compliance reviews, and other special projects requested by management. We have been operating during the first quarter according to the previously approved audit work plan.

PLAN SUMMARY

For internal audits, the 1999/2000 audit work plan covers five branches within STRS. For School District audits, we will be working with the External Affairs & Program Development Branch in the development and implementation of the Cash Balance Program Plan. The projected total audit or project hours available for the year will be approximately 12,263 hours, representing 5,600 hours for internal auditors, 4,020 hours for school district auditors and 2,643 hours for compliance analysts. The hours for the two clerical support personnel, one Audit Supervisor and the Chief Auditor are not accounted for in the annual audit plan.

METHODOLOGY

A more simplified annual work plan report is presented this year by showing audits completed during 1998-99 fiscal year and new audits assigned in the 1999/2000 fiscal year. The report displays audits and reviews completed by June 30, 1999 and internal audits with fieldwork completed by June 30, 1999. The remainder hours of those audits with fieldwork completed are carried over to the 1999/2000 fiscal year. Detailed description of school district audits completed and compliance cases reviewed are in the attachment following the annual work plan report.

To effectively control the audit projects, we continue to monitor the project related hours; total hours spent on each audit and projected completion dates. Total available hours and project required hours are used to determine the number of audits we are able to complete based on projected staffing level. For all audits, project related hours are set at 65% based on the total time each auditor has in a month. Non project related hours are activities that are not directly related to the performance of audits or case assignments. These include staff training, meetings, technical support, other administrative functions and special projects such as board agenda preparation, control self-assessment.

MANAGEMENT REQUESTS

Management requested us to perform a review of internal controls within the business processes being converted by START, which was completed by the Office of Audits. This project took the effort of the Office of Audits working with management in meetings, discussions and the analysis of business processes. Management also consulted with their system experts to finalize the internal control risks, existing controls and understanding of those controls in the START environment. This project was not an audit but a cooperated effort with management to address internal control concerns. The project identified a number of internal control concerns; however, they only represent a small percentage of the overall internal controls that exist in the current IDMS environment. As a result of this joint effort by auditors and management, we issued a control matrix summarizing potential risks, internal controls and comments by management regarding the START environment. This project has heightened our awareness of internal control issues in the START environment.

Management also has requested five audits related to the Cash Balance Benefit Program to be performed during the 1999/2000 fiscal year. We plan to do two initially. Based on the audit results, we will determine our approach with the remaining three audits. One of the main objectives of this type of review is to ensure that the school districts offering the Cash Balance Benefit Program have reported all the required contributions. This is consistent with the recommendation by PriceWaterhouseCoopers in their 1997-98 report to management.

INTERNAL AUDITS

In addition to the four final audit reports issued during the 1998-99 fiscal year, two other audits were near completion. The Securities Lending Program review was started and 80% completed at June 30, 1999, and the Inactive Members audit was started and all fieldwork was completed as of the date of this report. We also completed 90% of the pre-implementation review of the START related project where we identified and evaluated

management's internal control concerns. Lastly, we completed our review of risks and internal controls for the Services Division.

During 1999/2000, we plan to perform a risk assessment of the Investment Branch. This study may result in a request for additional staff to complete more high-risk investment audits. We have allocated 1.4 Personnel Equivalent this year for investment related audits. This may be inadequate for the level of review that will be identified by the risk assessment.

SCHOOL DISTRICT AUDITS

Even though we experienced 100% staff turn over, we were able to complete and issue five final audit reports before June 30, 1999. Shortly after the fiscal year end, we issued 11 audit reports to further reduce the backlog. Currently we have only five audits in backlog to complete and they have been assigned to the Audit Supervisor with deadlines of October and November to complete.

Regarding the 50 follow-up audits, we were able to complete 18 follow-up reviews of prior audits before June 30, 1999. We also did the analysis of the remaining 32 old audits to determine the following:

- the number of effected members,
- who needed to make the corrections (CalSTRS or School Districts),
- the number, amount of and nature of the errors,
- the amount of and present value of the at-risk dollars.

This workload has been transferred to the Compliance staff thus enabling the school district auditors to begin the field audits as planned. We just started fieldwork review of the San Diego Community College District in September.

During 1998/99, the School District program experienced audit issues that we did not expect to come up. We had to spend time developing additional analyses on various subjects including department chairs, vacation time, restructuring fringe benefits, etc. to complete final audit reports.

As indicated in the 1998/99 annual work plan, we worked with the Quality and Training Services who facilitated the team re-engineering effort. We now have developed a Reporting Self-Assessment (RSA) questionnaire which will help us identify which school districts have a high risk profile and be able to schedule future audits based on the RSA results. This is an improvement over the traditional school district audit selection process.

In addition to the two Cash Balance Program audits requested by management, we plan to audit five school districts for the defined benefit program. We also planned four audit engagements using the RSA questionnaire.

Because our auditors are new and there will be a learning curve during this fiscal year, we will not be able to schedule audits of the Los Angeles Unified School District (LAUSD) until the end of the fiscal year.

COMPLIANCE REVIEW

Compliance staff completed 46 case reviews during 1998/1999. Six of them required follow-ups because of adjustments to members' accounts. Compliance also opened 18 cases to review during the fiscal year and they will be carried forward to 1999/2000. During the fiscal year, Compliance staff was redirected to assist the School District team in their follow-up audit work. This will continue until all the follow-up work is completed this fiscal year.

Another major redirection was to reclassify one Retirement Program Specialist I position to auditor position – Staff Services Management Auditor. This increases one staff for the School District audit team.

Past year results have not produced high audit exceptions. Compliance unit has worked out a new sampling method that will include recent retired members and active members who have applied for retirement.

USE OF TEAMWORK

We continue to make improvements in teamwork. Currently we have six teams:

The START Team- The mission of this team is to continue the effort of reviewing critical business processes in the IDMS environment and to get ready to review the START environment for similar controls.

The School Re-engineering Team- The mission of this team is to use risk assessment approach in the school district audits. With a Reporting Self-assessment questionnaire, the team will work at the County Office of Education and District levels. The immediate goal is to work with our customers, the County or the School District, to identify high-risk areas for compliance review.

The Compliance Team- The mission of this team is to improve the search for problem cases for review. The team will use ACL to develop review criteria of cases and to explore the new approach of review.

The Internal Audit Team- The mission of this team is to improve the timeliness of future audits by limiting audit scope and by having two auditors work on the same audit. The future audits will also use control self-assessment as a tool to inform, educate and collaborate with our audit clients. The EDP Auditor Specialist I was hired last September and he is a member of the internal audit team.

The Conversion Team- The mission of this team is to work with our EDP Auditor consulting firm, Marcias & Gini in its effort to audit the data conversion process.

The ACL Team- This team consists of one representative from each unit within the Office of Audits. The main mission is to help develop computer skills in using the ACL program to perform online review of data.

INFORMATION TECHNOLOGY

We fulfilled our plan to have the beginning training on the use of the Audit Command Language (ACL) to facilitate our audits of the school districts, compliance case reviews and internal STRS operations. This took place in June, 1999. We are now exploring the usage of this powerful software in the current IDMS environment.

We are also considering the purchase of an Audit Leverage program. The features of this program includes human resource management, audit time reporting and project control, electronic work papers, and audit findings and recommendations tracking.

**OFFICE OF AUDITS
ANNUAL AUDIT PLAN
Fiscal Year 1999-2000**

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Office of Audits Objectives Internal Audits	Completed Audits for FY 1998-99	Budgeted Audit Hours for FY 1999-00
EXECUTIVE BRANCH START Project (Complete prior year audit) <ul style="list-style-type: none"> • Identification and evaluation of management's internal control weaknesses • Coordination of pre-data conversion phase with EDP consultant • Review of post-implementation internal controls 	X	350 370
CLIENT BENEFITS & SERVICES BRANCH <u>Disability & Survivor Benefits Division:</u> Review of Payment & Adjustment of Benefits Review of Death Match Process Review of risks and internal controls <u>Service Retirement Division:</u> Review of internal controls over Inactive Members Accounts (Complete prior year audit) Review of risks and internal controls <u>Services Division:</u> Review of risks and internal controls	X X (X) (X)	320 170 400 40
INFORMATION & FINANCIAL SYSTEM BRANCH <u>Accounting Division:</u> Review of risks and internal controls <u>Information Technology Services Division:</u> Review of Y2K risk mitigation & implementation (Complete prior year audit) <u>Membership Division:</u> Review of risks and internal controls		400 300 320

^x Completed Audit During Fiscal Year
^(x) Completed Audit Fieldwork

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X Completed Audit During Fiscal Year
(X) Completed Audit Fieldwork

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Office of Audits Objectives School District Audits	Completed Audits for FY 1998-99	Budgeted Audit Hours for FY 1999-00	Number of Audits for FY 1999-00
Defined Benefit Program Audits	5	2,230	5
Cash Balance Program Audits		460	2
Control Self-Assessment Engagements		490	4
Follow-up to Prior Audits	18	520	20
Respond to Executive Reviews	2	120	3
START Pre-Data Conversion		200	1
Coordination of CalSTRS annual financial audit	1		
TOTAL AUDIT HOURS for 4 auditors:		4,020	

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ANNUAL AUDIT PLAN
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Cases/Follow-Ups Completed or Opened 1998-99	1999-2000 Objectives	Budgeted Audit Hours 1999-2000
	<ul style="list-style-type: none"> • <u>Compliance Cases</u> 	
18	Open new cases during fiscal year (not completed by FYE), 12 @ 15.25 hours	183
14	Complete cases in process (from prior years), 10 @ 20 hours, 8 @ 50 hours	600
32	Open & Complete new cases during fiscal year, 60 @ 30 hours	1,800
6	Follow-up on completed cases, 6 cases @ 10 hours	60
17	Complete District Audit Follow-Ups	
	Total Hours for 2 Retirement Program Specialist I's:	2,643

STRS Office of Audits
School District Audits
Summary of Dollars Saved or Corrected
As of June 30, 1999

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					D O L L A R		E F F E C T				
					1	2	3	4			
					Active	Retired	Unreported				
					Members	Members	Post	Total Dollar			
					Correction of	Net Present	Retirement	Excess	Effect	Audit	Hours
District Audited	Audit Report Date	Total Teachers & Retirants	Number of Accounts Audited	Total With Error	Contributions	Value Effect	Earnings	Earnings	(Col 1+2+4)	Budget	Actual
Final Reports Issued in FY 98-99:											
1 Mark Twain	Jul-98	37	5		\$ -	\$ -	\$ -	\$ -	\$ -	150	55
2 Bret Harte	Jul-98	49	7						-	150	48
3 Anaheim Union	Aug-98	1,162	60	5	-	3,936	46,700	-	3,936	230	518
4 Vallecito	Oct-98	61	6						-	150	48
5 Pomona	Nov-98	1,778	55	14		70,460			70,460	270	261
		3,087	133	19	\$ -	\$ 74,395	\$ 46,700	\$ -	\$ 74,395	950	930

**OFFICE OF AUDITS
 ANNUAL AUDIT PLAN
 Fiscal Year 1999-2000**

COMPLIANCE CASES:

Number	Assignments	Status
	Cases in Progress (18): As of 6-30-99	
C-2127	Gilroy Unified School District	Case work in progress.
C-2148	Victor Valley Unified School District	Case work in progress.
C-2150	Barstow Unified School District	Case work in progress.
C-2164	Oakland Unified School District	Case work in progress.
C-2167	Oakland Unified School District	Case work in progress.
C-2168	San Joaquin Delta Community College District	Case work in progress.
C-2169	San Joaquin Delta Community College District	Case work in progress.
C-2170	San Joaquin Delta Community College District	Case work in progress.
C-2197	Martinez Unified School District Peralta Unified School District	Case work in progress.
C-2214	Butte College	Case work in progress.
C-2221	Kern Community College	Case work in progress.
C-2226	West Contra Costa Unified School District	Case work in progress.
C-2227	West Contra Costa Unified School District	Case work in progress.
C-2228	West Contra Costa Unified School District	Case work in progress.
C-2229	West Contra Costa Unified School District	Case work in progress.
C-2230	West Contra Costa Unified School District	Case work in progress.
C-2231	San Ramon Valley Unified School District	Case work in progress.
C-2233	San Ramon Valley Unified School District	Case work in progress.

Number	Assignments	Status
	Cases in Review Process (0) As of June 30, 1999	

Number	Assignments	Status
	Final Report Issued (46): As of 6-30-99	
C-2145	Saddleback Unified School District	Final report issued 6-9-99
C-2166	Oakland Unified School District	Final report issued 10-22-98
C-2178	Santa Ana Unified School District	Final report issued 1-14-99
C-2183	San Juan Unified School District	Final report issued 7-6-98
C-2185	San Juan Unified School District	Final report issued 7-7-98
C-2186	San Juan Unified School District	Final report issued 7-7-98
C-2187	Rio Linda Union School District	Final report issued 7-6-98
C-2188	Sacramento City Unified School District	Final report issued 11-2-98
C-2189	North Sacramento Elementary School District	Final report issued 7-27-98
C-2191	Oakdale Union Elementary School District	Final report issued 8-12-98
C-2192	Fullerton Unified School District	Final report issued 8-26-98
C-2193	Contra Costa Community College District	Final report issued 2-11-99
C-2194	Contra Costa Community College District	Final report issued 12-17-98
C-2195	Contra Costa Community College District	Final report issued 5-11-99
C-2196	Contra Costa Community College District	Final report issued 6-18-99
C-2198	Contra Costa Community College District	Final report issued 5-4-99
C-2199	Contra Costa Community College District	Final report issued 2-10-99
C-2200	Contra Costa Community College District	Final report issued 12-18-98
C-2201	Contra Costa Community College District	Final report issued 12-16-98
C-2202	Contra Costa Community College District	Final report issued 12-21-98

Number	Assignments	Status
C-2203	Contra Costa Community College District	Final report issued 12-18-98
C-2204	Oakley Union Elementary School District	Final report issued 8-5-98
C-2205	Contra Costa County Office of Education	Final report issued 8-27-98
C-2206	Contra Costa Community College District	Final report issued 9-2-98
C-2207	Walnut Creek Elementary School District	Final report issued 9-8-98
C-2208	West Valley-Mission Community College District	Final report issued 12-10-98
C-2209	West Valley-Mission Community College District	Final report issued 2-9-99
C-2210	West Valley-Mission Community College District	Final report issued 2-9-99
C-2211	Mt. Diablo Unified School District	Final report issued 3-1-99
C-2212	Mt. Diablo Unified School District	Final report issued 3-1-99
C-2213	Pittsburg Unified School District	Final report issued 5-10-99
C-2215	San Luis Obispo County Office of Education	Final report issued 11-23-98
C-2216	Orange Unified School District	Final report issued 2-26-99
C-2217	John Sweet Unified School District	Final report issued 2-9-99
C-2218	San Joaquin Delta Community College	Final report issued 1-6-99
C-2219	Compton Unified School District	Final report issued 2-23-99
C-2220	San Bernardino County Office of Education	Final report issued 6-23-99
C-2222	Kern Community College District	Final report issued 4-28-99
C-2223	Rio Hondo Unified School District	Final report issued 3-12-99
C-2224	Sonoma County Office of Education	Final report issued 3-4-99

Number	Assignments	Status
C-2225	Sonoma County Office of Education	Final report issued 3-3-99
C-2232	San Ramon Valley Unified School District	Final report issued 5-12-99
	Empire Unified School District	Final report issued 6-30-99
	Woodlake Unified School District	Final report issued 10-5-98
	Siskiyou County Office of Education	Final report issued 5-13-99
	Azusa Unified School District	Final report issued 7-1-98